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FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of )

Simplification of the )  
Depreciation Prescription Process )

CC Docket No. 92-296

**COMMENTS BY AMERITECH**

The Ameritech Operating Companies (Ameritech),<sup>1</sup> pursuant to §§ 1.415 and 1.419 of the Federal Communications Commission's (Commission) rules, 47 C.F.R. §§ 1.415 and 1.419, respectfully submit the following comments on the Commission's proposed ranges for the projection lives and future net salvage (FNS) factors for the newly prescribed depreciation prescription process, the basic factor range option.<sup>2</sup> In these comments, Ameritech opposes the proposed ranges because the ranges are too narrow and do not take into account the projection lives and FNS values used by other companies with similar assets, such as AT&T and other IXCs. As a result of the limited ranges proposed by the Commission as well as the limited number of accounts for which ranges were proposed, the basic factor range option will not simplify the depreciation prescription process. Instead, by replacing the Commission's current streamlined process for certain accounts, and requiring carriers to submit full studies in order bring their accounts into the ranges, the basic factor range option creates more cost and administrative burdens than the current depreciation prescription process.

<sup>1</sup> The Ameritech Operating Companies are: Illinois Bell Telephone Company, Indiana Bell Telephone Co., Inc., Michigan Bell Telephone Company, The Ohio Bell Telephone Company, and Wisconsin Bell, Inc.

<sup>2</sup> Simplification of the Depreciation Prescription Process, CC Dkt. No. 92-296, Order Inviting Comments, FCC 93-492, 8 FCC Rcd. (released November 12, 1993) (Order Inviting Comment)

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I. Introduction.

On October 20, 1993, the Commission released the *Depreciation Simplification Order* in which it prescribed the basic factor range option as the depreciation process for LECs regulated under price caps.<sup>3</sup> Under the basic factor range option, the Commission would establish ranges for the basic factors that determine the parameters used in the depreciation rate formula: the future net salvage and the projection life. If the carrier used basic factors from within the established ranges for a range account, the carrier would not be required to submit detailed supporting data.<sup>4</sup>

Subsequently, on November 12, 1993, the Commission issued an *Order Inviting Comments* in which it seeks comments on its proposed ranges for projection lives and FNS values for twenty-two plant accounts. However, for four of those accounts, the Commission proposed ranges for rate categories, or subdivisions, of the plant accounts. The Commission reasoned that use of the rate categories will provide more accurate depreciation rates.<sup>5</sup> In establishing the proposed ranges, the Commission stated that it would base the ranges on +/- one standard deviation around an industry mean, although it might consider other factors in proposing the ranges, such as, any trends in LEC plant retirement or modernization not reflected in the current basic factors or the number of carriers encompassed by the proposed range.<sup>6</sup>

For the reasons outlined below, Ameritech opposes the Commission's proposed ranges.

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<sup>3</sup> Simplification of the Depreciation Prescription Process, CC Dkt. No. 92-296, Report and Order FCC 93-452, 8 FCC Rcd. (released October 20, 1993) (*Depreciation Simplification Order*).

<sup>4</sup> *Id.* at ¶ 24.

<sup>5</sup> Order Inviting Comments at ¶ 5.

<sup>6</sup> *Id.* at ¶ 7.

**II. The Commission Should Establish Broader Ranges to Achieve the Goal of Simplification.**

The Commission adopted the basic factor range option in order to simplify the depreciation prescription process, but in reality the process it has adopted will not serve that purpose. Specifically, as explained below, the basic factor range option will not simplify the depreciation prescription process because the proposed ranges are too narrow, and the Commission did not establish ranges for enough accounts or rate categories. Therefore, in order for the Commission to attain the goals of simplification, the Commission should established broader ranges for more plant accounts.

**A. The proposed ranges are too narrow.**

In order to take advantage of a simplified depreciation process, the price cap LEC has to have both its prescribed projection life and FNS within the ranges established by the Commission. If either one of these factors do not fall within the ranges then the LEC must file a full depreciation study for the account. The Commission reasoned that a study is needed in order to demonstrate that it is reasonable for the LEC to use the projection lives and FNS within the ranges in calculating its depreciation expense. However, by limiting the ranges to +/- one standard deviation, there is less than a 50 percent chance that the LEC's prescribed factors will both fall within the ranges.

This basic factor range option contrasts significantly with the Commission's own streamlined study method established for minor rate categories. Specifically, under the streamlined study method, the Commission allows LECs to provide streamlined information if the account investment is equal to or less than 3 percent of the total study investment. Thus, the streamlined method substantially reduces the data analysis required for accounts in which the change in accrual will have little effect on the total change in the

accounts. For example, the number of exhibits required under the streamlined method is approximately 13 for each rate category as compared to an average of 26 exhibits for each category for a full study.

Under the Commission's basic factor range option, when Illinois Bell Telephone Company submits information for its 1994 represcription, it will have to provide a full study for 21 rate categories.<sup>7</sup> Specifically, of the 22 rate categories for which the Commission prescribed ranges, Illinois Bell uses only 17 of those rate categories. Of those 17 categories, Illinois Bell's currently prescribed projection lives and FNS values fall within only 9 of those ranges. Therefore, Illinois Bell must complete full studies for 8 of those rate categories in order to move their projection lives and future net salvage values into the ranges. Under the Commission's streamlined method, however, Illinois Bell would provide only streamlined information for those 8 rate categories. This increase in required studies is a significant amount of work that would not have been required under the Commission's current depreciation prescription process. However, if the Commission expanded the range for the projection lives and FNS values then the percentage of LECs' current projection lives and FNS values falling within the ranges would increase and thereby significantly simplify the process.

Another cause of the proposed ranges being too narrow is the Commission's failure to consider either the prescribed projection lives and FNS used by AT&T and the other interexchange carriers and, likewise, the Commission's failure to use any external benchmarks for establishing the ranges. Specifically, while the Commission ostensibly stated that it might consider other factors in establishing the ranges, based the ranges proposed in the *Order Inviting*

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<sup>7</sup>See Exhibit 1.

*Comments*, the Commission did not consider any additional information in establishing the ranges. Because the projection lives prescribed for AT&T, and the depreciation rates used by the other interexchange carriers, are significantly different from those prescribed for the price cap carriers; by not including these data in its calculation of the industry mean, the ranges established under the basic factor range option are narrower than they should be.

And, the Commission has failed to explain why it did not consider other depreciation factors in establishing the proposed ranges. Regardless of the different depreciation prescription processes that will be applied to AT&T and the price cap LECs, there is no justification for the Commission prescribing different projection lives for AT&T than for the price cap LECs when both companies use similar equipment and provide similar services.

Likewise, the Commission also failed to use any external benchmarks for determining the appropriate ranges for the projection lives and FNS values. In this regard, a number of commenters on the Commission's proposal to simplify the depreciation prescription process stated that the Commission's current method of prescribing projection lives and FNS fails to establish realistic depreciation rates and instead results in depreciation rates significantly lower than they should be. Therefore, the commenters stated that, whatever depreciation prescription process the Commission adopts, at a minimum, the Commission must ensure that the resulting depreciation rates accurately reflect the diminution of service value of the plant. However, because of the manner in which the Commission establishes the ranges for projection lives, the Commission effectively codifies its earlier prescribed projection lives, at a time when the Commission should be reexamining whether those projection lives are an accurate reflection of the remaining service life of the plant.

Consequently, in order to achieve its goal of simplification, the Commission should broaden the narrow ranges proposed in the Order to include more of the LECs' currently prescribed projection lives and FNS values as well as to grant LECs more flexibility in determining the appropriate projection lives and FNS to use in the calculation of their depreciation rates. Moreover, the Commission should broaden the proposed ranges to more accurately reflect the loss of the service value of the plant by including the projection lives and FNS currently used by interexchange carriers, and prescribed for AT&T, and by examining external depreciation benchmarks.

- B. The Commission should increase the number of accounts for which it will establish ranges.

Another problem with the Commission's proposed ranges is the Commission's failure to propose ranges for a sufficient number of accounts. In order to effectively simplify the depreciation prescription process, the Commission must establish ranges for a sufficient number of accounts. However, in its *Order Inviting Comments*, the Commission chose to establish ranges for only those accounts and rate categories which generally have a small amount of investment. In this regard, the accounts for which ranges were established amount to only 30 percent of Illinois Bell's plant investment. Therefore, the Commission's attempt to simplify the process does not extend to 70 percent of Illinois Bell's plant.<sup>8</sup> Consequently, Illinois Bell and all other price

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<sup>8</sup> It appears that the Commission has failed to propose ranges for those accounts in which even a small change in projection life or FNS value within the range will result in a substantial change in depreciation expense. It seems that the Commission assumes that establishing ranges for those accounts would grant LECs too much flexibility. However, one Commissioner has recognized that the Commission has been inconsistent in its treatment of LECs' depreciation rates by dictating that depreciation expenses be treated endogenously for price caps on the one hand and, by failing to grant LECs as much control over depreciation expenses as possible on the other. See Separate Statement by Commissioner Barrett, Petition For Waiver of the Commission's Rules to Recover Network Depreciation Costs, Order, FCC 93-522, 8 FCC Rcd. (released December 8, 1993).

cap LECs must continue to use the Commission's non-simplified depreciation process for at least 70 percent of their investment.

In addition, to the extent that these accounts or rate categories were already covered by the streamlined depreciation process, establishing ranges for those accounts does not serve to simplify the process. As noted above, if a LEC's projection life or FNS value for an account does not fall within the proposed ranges, the LEC must submit a full study in order to use the projection life and FNS value in the range. Thus, unless the Commission establishes ranges for a greater number of accounts and a greater amount of investment, the price cap LECs will still be required to follow and perform the necessary studies for a majority of its investment. That is not simplification.

### III. Conclusion

For the foregoing reasons, the Commission should broaden the proposed ranges for the projection lives and FNS values and establish ranges for a greater number of accounts. These changes are necessary for the Commission to attain its stated goal of simplifying of the depreciation prescription process. In addition, the Commission should include in its establishment of ranges the projection lives and FNS values used by interexchange carriers or other external factors which will lead to more accurate reflections of the remaining service life of the plant.

Respectfully submitted,

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## COMPARISON OF FCC RANGES TO AT&amp;T AND ILLINOIS PROJECTION LIVES

| ACCOUNT NAME               | FCC<br>RANGES   |      | AT&T<br>1991<br>STUDY | ILLINOIS<br>1991<br>STUDY |      |
|----------------------------|-----------------|------|-----------------------|---------------------------|------|
|                            | PROJECTION LIFE |      |                       |                           |      |
|                            | LOW             | HIGH | PROJECTION LIFE       |                           |      |
| MOTOR VEHICLES             | 7.8             | 9.8  | 9.0                   | 10.2                      |      |
| AIRCRAFT                   | 7.0             | 10.0 |                       |                           |      |
| SPECIAL PURPOSE VEHICLES   | 12.0            | 18.0 |                       |                           |      |
| GARAGE WORK EQ             | 12.0            | 18.0 |                       | 15.0                      |      |
| OTHER WORK EQ              | 12.0            | 18.0 | 20.0                  | 13.5                      |      |
| FURNITURE                  | 15.0            | 20.0 | 22.0                  | 15.0                      |      |
| OFFICE SUPPORT EQ          | 10.0            | 15.0 | 15.4                  | 11.0                      |      |
| COMPANY COMM EQ            | 7.0             | 10.0 | 12.7                  | 9.1                       |      |
| COMPUTERS                  | 6.0             | 8.0  | 8.0                   | 6.0                       |      |
| RADIO                      | 9.0             | 15.0 | 8.6                   | 15.5                      |      |
| CIRCUIT DDS                | 7.0             | 11.0 |                       | 8.0                       |      |
| CIRCUIT ANALOG             | 8.0             | 11.0 |                       | 5.2                       | 6.5  |
| STATION APPARATUS          | 5.0             | 8.0  |                       |                           |      |
| LARGE PBX                  | 5.0             | 8.0  |                       |                           |      |
| PUBLIC TELEPHONE EQ        | 7.0             | 10.0 | 16.0                  | 8.0                       |      |
| OTHER TERM EQ              | 5.0             | 8.0  | 11.0                  | 4.3                       |      |
| AERIAL CABLE NONMET        | 25.0            | 30.0 | 12.5                  |                           |      |
| UNDERGROUND CABLE NONMET   | 25.0            | 30.0 | 20.0                  |                           | 30.0 |
| UNDERGROUND CABLE METALLIC | 25.0            | 30.0 | 14.5                  |                           | 30.0 |
| BURIED CABLE NONMET        | 25.0            | 30.0 | 20.0                  | 30.0                      |      |
| SUBMARINE CABLE            | 25.0            | 30.0 | 20.0                  | 35.0                      |      |
| CONDUIT                    | 50.0            | 60.0 | 57.0                  | 65.0                      |      |